

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Vestaburg Community Schools	County Isabella/Montcalm
Fiscal Year End June 30, 2006	Opinion Date August 3, 2006	Date Audit Report Submitted to State October 9, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

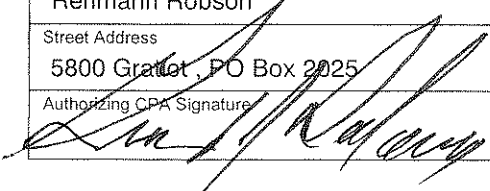
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 989 799-9580	
Street Address 5800 Gratiot, PO Box 2025		City Saginaw	State MI
Zip 48605			
Authorizing CPA Signature 	Printed Name Gerald J. Deslover, CPA	License Number 1101007126	

Vestaburg Community School District
Vestaburg, Michigan

Financial Statements

For the Year Ended June 30, 2006

VESTABURG COMMUNITY SCHOOL DISTRICT

JUNE 30, 2006

ADMINISTRATION

SUPERINTENDENT

DONALD D. MYERS

BOARD OF EDUCATION

PRESIDENT

SANDRA MILLER

VICE PRESIDENT

KATHY PEASLEY

SECRETARY

JANETTE BUTLER

TREASURER

SCOTT MARSHALL

TRUSTEE

IVAN PALMER

TRUSTEE

ROGER PENWELL

TRUSTEE

ROBERT PEGLOW II

VESTABURG COMMUNITY SCHOOL DISTRICT

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

August 3, 2006

To the Board of Education
Vestaburg Community School District
Vestaburg, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the ***Vestaburg Community School District***, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the ***Vestaburg Community School District***, as of June 30, 2006, and the respective changes in financial position thereof and the budgetary comparisons for the general fund and food service special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise ***Vestaburg Community School District's*** basic financial statements. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report presents management's discussion and analysis of Vestaburg Community School District's (hereon referred to as "the District") performance during the fiscal year ending June 30, 2006. Please read this along with the financial statements of the District.

Financial Highlights

- The liabilities of the District exceeded its assets at the close of the June 30, 2006, fiscal year by \$2,178,739 (net assets). Of this amount, \$1,561,024 (unrestricted net assets) may be used to meet the government's ongoing obligations for District programs.
- The General Fund received \$5,993,080 in revenues and had \$6,053,664 in expenditures. The General Fund's fund balance decreased to \$1,631,500 from \$ 1,763,722.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,623,031 or 27% of total General Fund expenditures.
- The District's total debt increased by \$259,504 during the current year due to increase in the accrued interest on the State School Bond Loan.

Annual Report

The annual report consists of our Management's Discussion and Analysis, a series of financial statements, notes to those statements, and supplemental information. The financial statements (government-wide financial statements) provide information about the activities of the District as a whole. There are two District-wide statements: The Statement of Net Assets and the Statement of Activities. They present a year-end cumulative view and a longer-term view of the District's finances. All funds and capital assets are combined. The Fund Financial Statements (governmental fund statements) provide more detail showing the year's activity by fund. They also show the amount available to finance future programs.

In general, the Fund Financial Statements have changed very little as a result of GASB 34 requirements, and are comparable to prior year financial statements. The primary difference is that the Account Groups (General Fixed Assets and General Long-Term Debt) are no longer reported. The fund level statements are reported on a modified accrual basis. Only those assets that are "*measurable*" and "*currently available*" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

Government-wide Financial Statements

The Government-wide Financial Statements appear first in the financial statements. They present information on the District as a whole. They show net assets and a statement of activities for the year. These statements include all assets and liabilities using the full accrual basis of accounting,

similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account.

Net assets, the difference between assets and liabilities, are one way of measuring the financial health of the District. In the statement of activities, the revenues less the expenses result in an increase or decrease in the net assets. Increases or decreases in net assets, over time, affect the financial health of the District. When analyzed together, the two statements help the reader determine whether the District is financially stronger or weaker as a result of the year's activities. However, the goal of the District is to provide quality education and a safe environment, not to make a profit.

The statement of activities covers all of the District's services, including instruction, supporting services, food service, athletics, and community services. Property taxes, unrestricted State Aid, and State and Federal grants finance most of these activities. The government-wide financial statements can be found on pages 9-10 of this report.

Fund Financial Statements

The Fund Financial Statements focus on individual parts of the District, by reporting the District's operation in more detail than the district-wide statements provide. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives (i.e., Food Service and Athletics). Many of the other funds are created to help control and manage money for a particular purpose, or to meet legal responsibilities for certain taxes, grants, and other money. The governmental funds of the District focus on showing how money flows into and out of funds, and the balances left at year-end. They provide a detailed, short-term view of the operations and services of the District. An accounting method called "modified accrual accounting" is used in fund accounting. This method measures cash and all other financial assets that can readily be converted to cash.

The fund statements are formatted to comply with the legal requirement of the Michigan Department of Education's Public School Accounting Manual. In the State of Michigan, the District's major instructional and instructional support activities are reported in their relevant funds. The funds used by the District include General Fund, Special Revenue Funds for food service and athletic activities and Debt Service Funds for bonded debt. The governmental fund financial statements can be found on pages 11-17 of this report.

Agency and Trust Accounts

Vestaburg Community School District is the trustee, or fiduciary, for its student activity and scholarship funds established for the benefit of our students. These fiduciary activities are reported in separate statements of fiduciary net assets. They are excluded from the other financial statements because the District may not use the assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The fiduciary fund financial statements can be found on page 18 of this report.

Notes to the financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-33 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 34-43 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities exceeded assets by \$2,178,739 at the end of the June 30, 2006 fiscal year.

Summary of Net Assets

	<u>2004-2005</u>	<u>2005-2006</u>
Assets		
Current Assets	\$ 2,628,471	\$ 2,512,511
Capital Assets, net	<u>1,337,166</u>	<u>1,197,089</u>
Total assets	<u>\$ 3,965,637</u>	<u>\$ 3,709,600</u>
Liabilities		
Current Liabilities	\$ 1,023,261	\$ 554,655
Long-term Liabilities	<u>5,074,180</u>	<u>5,333,684</u>
Total Liabilities	<u>\$ 6,097,441</u>	<u>\$ 5,888,339</u>
Net Assets		
Invested in capital assets, net of related debt	\$ (3,078,313)	\$ (2,974,944)
Restricted for Debt Service	120,016	150,436
Unrestricted	<u>826,493</u>	<u>645,769</u>
Total Net Assets	<u>\$ (2,131,804)</u>	<u>\$ (2,178,739)</u>

A substantial portion of the District's assets (32%) reflects its investment in capital assets (i.e., land, buildings, vehicles, and equipment), less accumulated depreciation. The District uses these capital assets to provide services to the students; consequently, these assets are not available for future spending. Thirty nine percent of the District's governmental assets are held in cash and investments. The largest portion is in the general fund, to fund the yearly operations of the district. The District's investment in its capital assets is reported net of related debt; it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Long-term liabilities include general obligation bonds used to finance acquisition of capital assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported to show legal constraints which limit use of some of the assets. Debt covenants and legislation limit the District's ability to use those net assets for day-to-day operations.

The net assets represent the accumulated results of all past years' activities. This amount will be affected by the year-to-year combined operations. The summary of this years' activity for the District as a whole are reported below.

The District's net assets decreased by \$54,054 during the current fiscal year. Most of this decrease largely reflects the degree to which ongoing expenses exceeded ongoing revenues.

Statement of Net Assets from Operating Results

	<u>2004-2005</u>	<u>2005-2006</u>
Revenue		
Program revenue		
Charges for services	\$ 185,444	\$ 196,823
Grants and categoricals	673,385	484,249
General revenue		
Property taxes	705,149	737,499
State foundation allowance	5,108,136	5,377,482
Other	<u>15,566</u>	<u>43,140</u>
Total revenue	<u>\$ 6,687,680</u>	<u>\$ 6,839,193</u>
Function/Program expenses		
Instruction	\$ 3,533,509	\$ 3,646,241
Support services	2,262,465	2,381,068
Food Service	266,637	317,723
Athletics	162,552	133,665
Interest on long-term debt	430,487	245,365
Unallocated depreciation	<u>170,171</u>	<u>169,185</u>
Total Expenses	<u>\$ 6,825,821</u>	<u>\$ 6,893,247</u>
Increase (decrease) in Net Assets	<u>\$ (138,141)</u>	<u>\$ (54,054)</u>

The change in net assets differs from the change in fund balance because of different accounting requirements. A reconciliation appears later in the financial statements.

The decrease in net assets was less than the decrease in the prior year due mainly to the decrease in the interest on the long-term debt.

Summary of Fund Financial Statements

As noted earlier, the District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it, and may provide more insight into the District's overall financial health.

The combined Governmental fund balance of \$1,907,071 decreased by \$105,444 from last year. The General Fund, which is the primary operating fund, decreased by \$132,222.

The District adopts an annual appropriated budget for its General and Special Revenue Funds. Budgetary comparison statements have been provided for the General Fund to demonstrate compliance with those budgets.

The Special Revenue fund balance, which includes Athletic and Food Service, had relatively no changes. The fund balance in Food Service at June 30, 2006, was \$125,135. The Athletic Fund had a zero fund balance.

The Debt Service Funds show a fund balance of \$150,436.

General Fund Budget

By law, the District must establish an original budget in June, with a beginning fiscal date of July 1, for the General Fund and Special Revenue Funds. Budgets are revised twice a year. Approximately eighty nine percent of the District's revenue comes from the State through a Foundation Allowance and Categoricals (specific program grants). The State Foundation Allowance is based on student enrollment and an amount per pupil designated by the State. Therefore, the budget is primarily based on an estimate of the student population including the following September count, the per-pupil amount set by the State, and an estimate of the categoricals that will be approved by the State.

State law requires that budgets be amended to ensure that expenditures do not exceed appropriations. Original and final budgets, as well as actual amounts paid and received, are included in the basic financial statements.

The General Fund received \$5,993,080 in revenues and had \$6,053,664 in expenditures. The General Fund's fund balance decreased to \$1,631,500 from \$1,763,722.

At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,623,031 or 27% of total General Fund expenditures

The actual General Fund expenditures were within .6% of the final budget amounts. The decrease in the actual General Fund revenues from the final budgeted amounts is mainly due to actual amounts received from State and Federal sources.

Capital Assets

As of June 30, 2006, the District had \$1,197,089 in capital assets including land, buildings, buses, vehicles, musical instruments, property and technology.

Capital Assets (net of depreciation)

	<u>2004-2005</u>	<u>2005-2006</u>
Land	\$ 75,000	\$ 75,000
Buildings	2,431,581	2,431,581
Vehicles	911,190	911,190
Equipment – Other	<u>2,308,780</u>	<u>2,345,536</u>
Subtotal	5,726,551	5,763,307
Less accumulated dep	<u>(4,389,385)</u>	<u>(4,566,218)</u>
Net Capital Assets	<u>\$ 1,337,166</u>	<u>\$ 1,197,089</u>

The change in capital assets reflects the purchase of small furnishings and equipment for a total of \$92,836 and the disposal of other small furnishings and equipment for a total of \$56,080.

Additional information of the District's capital assets can be found in note III.C. in the notes to the financial statements.

Long-term Debt

The long-term obligations for the District increased from \$5,320,608 at the end of 2004-2005 to \$5,333,684 at the end of 2005-2006. The total decrease includes the payment of debt service requirements for the 2005 refinancing of the 1996 Government obligation bonds and the payment of debt service requirements for the portion of the 1996 Government obligation bonds not refinanced.

Additional information on the District's long-term debt can be found in note III. F. in the Notes to Financial Statements.

Economic Factors and Next Year's Budget and Rates

Since most of the District's revenue is derived from the per pupil foundation allowance, student enrollment as reported in the blended count is one of the key factors in forecasting revenue. Once the final student count is known in late October, State law requires the District to amend the budget if actual revenues will vary significantly from those originally appropriated. Under State law, the District cannot access additional property tax revenue for general operations.

The State periodically holds a revenue-estimating conference. Based on the results of the most recent conference, the State estimates funds sufficient to increase the per pupil foundation

amount by \$210 per pupil, this will bring the per pupil amount to \$7,085. This is the largest increase in five years. We are very cautiously optimistic. The State budget conference is also projecting distributions of \$23 per pupil in “equity payments.” This would raise the minimum per pupil foundation grant to \$7,108 for the 2006-2007 school year.

Requests for Information

This financial report is designed to provide a general overview of the District’s finances, and to demonstrate the District’s accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to Tracey Reed, Vestaburg Community School District, 7188 Avenue B, Vestaburg, MI 48891.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

VESTABURG COMMUNITY SCHOOLS

Statement of Net Assets

June 30, 2006

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,368,251
Receivables	1,130,925
Prepaid items and other assets	13,335
Capital assets not being depreciated	75,000
Capital assets being depreciated, net	<u>1,122,089</u>
Total assets	<u>3,709,600</u>
Liabilities	
Accounts payable and accrued liabilities	543,858
Unearned revenue	10,797
Long-term debt:	
Due within one year	263,609
Due in more than one year	<u>5,070,075</u>
Total liabilities	<u>5,888,339</u>
Net assets	
Invested in capital assets, net of related debt	(2,974,944)
Restricted for:	
Debt service	150,436
Unrestricted	<u>645,769</u>
Total net assets (deficit)	<u><u>\$ (2,178,739)</u></u>

The accompanying notes are an integral part of these financial statements.

VESTABURG COMMUNITY SCHOOLS
Statement of Activities
For the Year Ended June 30, 2006

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction	\$ 3,639,122	\$ 2,700	\$ 302,626	\$ (3,333,796)
Supporting services	2,381,068	-	-	(2,381,068)
Food service	317,723	132,096	181,623	(4,004)
Athletics	133,665	62,027	-	(71,638)
Interest on long-term debt	245,365	-	-	(245,365)
Unallocated depreciation	169,185	-	-	(169,185)
Total	<u>\$ 6,886,128</u>	<u>\$ 196,823</u>	<u>\$ 484,249</u>	<u>(6,205,056)</u>
General revenues:				
Property taxes				737,499
Unrestricted state aid				5,377,482
Unrestricted other revenue				10,617
Unrestricted investment earnings				<u>32,523</u>
Total general revenues				<u>6,158,121</u>
Change in net assets				(46,935)
Net assets, (deficit) beginning of year				<u>(2,131,804)</u>
Net assets, (deficit) end of year				<u><u>\$ (2,178,739)</u></u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

VESTABURG COMMUNITY SCHOOLS

Balance Sheet Governmental Funds June 30, 2006

	<u>General Fund</u>	<u>Food Service</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<u>ASSETS</u>				
Assets				
Cash and investments	\$ 1,035,451	\$ 232,463	\$ 100,337	\$ 1,368,251
Due from other governmental units	1,088,891	-	42,034	1,130,925
Due from other funds	137,599	39,950	85,955	263,504
Inventories	8,469	4,866	-	13,335
	<u>8,469</u>	<u>4,866</u>	<u>-</u>	<u>13,335</u>
<u>TOTAL ASSETS</u>	<u>\$ 2,270,410</u>	<u>\$ 277,279</u>	<u>\$ 228,326</u>	<u>\$ 2,776,015</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable	27,026	-	24,314	51,340
Accrued payroll	375,328	10,592	-	385,920
Accrued liabilities	90,042	2,541	-	92,583
Deposits held for others	-	1,412	-	1,412
Due to other funds	114,363	137,599	11,542	263,504
Deferred revenue	32,151	-	42,034	74,185
	<u>32,151</u>	<u>-</u>	<u>42,034</u>	<u>74,185</u>
Total liabilities	<u>638,910</u>	<u>152,144</u>	<u>77,890</u>	<u>868,944</u>
Fund balances				
Reserved for inventories	8,469	4,866	-	13,335
Unreserved:				
Undesignated	1,623,031	120,269	-	1,743,300
Undesignated, reported in nonmajor:				
Debt service funds	-	-	150,436	150,436
	<u>-</u>	<u>-</u>	<u>150,436</u>	<u>150,436</u>
Total fund balances	<u>1,631,500</u>	<u>125,135</u>	<u>150,436</u>	<u>1,907,071</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 2,270,410</u>	<u>\$ 277,279</u>	<u>\$ 228,326</u>	<u>\$ 2,776,015</u>

The accompanying notes are an integral part of these financial statements.

VESTABURG COMMUNITY SCHOOLS
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2006

Fund balances - total governmental funds	\$	1,907,071
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets		5,763,307
Deduct: accumulated depreciation		(4,566,218)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred long-term receivable		63,388
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds payable		(5,333,684)
Deduct: accrued interest on bonds payable		(12,603)

Net assets (deficit) of governmental activities	\$	<u>(2,178,739)</u>
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The accompanying notes are an integral part of these financial statements.

VESTABURG COMMUNITY SCHOOLS

Statement of Revenue, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended June 30, 2006

	<u>General Fund</u>	<u>Food Service</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Revenue				
Local sources	\$ 383,845	\$ 132,458	\$ 537,598	\$ 1,053,901
State sources	5,384,601	10,817	4,999	5,400,417
Federal sources	224,634	170,806	-	395,440
	<u>5,993,080</u>	<u>314,081</u>	<u>542,597</u>	<u>6,849,758</u>
Expenditures				
Instruction	3,682,114	-	-	3,682,114
Supporting services	2,230,467	-	-	2,230,467
Food service activities	-	317,723	-	317,723
Athletic activities	-	-	133,665	133,665
Debt service:				
Principal repayment	-	-	243,446	243,446
Interest and fiscal charges	-	-	206,704	206,704
Capital outlay	87,861	-	-	87,861
Payments to other governmental units	53,222	-	-	53,222
	<u>6,053,664</u>	<u>317,723</u>	<u>583,815</u>	<u>6,955,202</u>
Revenue over (under) expenditures	<u>(60,584)</u>	<u>(3,642)</u>	<u>(41,218)</u>	<u>(105,444)</u>
Other financing sources (uses)				
Transfers in from other funds	-	-	71,638	71,638
Transfers out to other funds	(71,638)	-	-	(71,638)
	<u>(71,638)</u>	<u>-</u>	<u>71,638</u>	<u>-</u>
Net change in fund balances	(132,222)	(3,642)	30,420	(105,444)
Fund balance, beginning of year	1,763,722	128,777	120,016	2,012,515
Fund balance, end of year	<u>\$ 1,631,500</u>	<u>\$ 125,135</u>	<u>\$ 150,436</u>	<u>\$ 1,907,071</u>

The accompanying notes are an integral part of these financial statements.

VESTABURG COMMUNITY SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds	\$ (105,444)
--	--------------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	92,836
Deduct: depreciation expense	(230,488)
Deduct: loss on disposal of capital assets	(2,425)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Deduct: payments received on long-term Durant Settlement receivable	(3,446)
---	---------

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	243,446
--	---------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: decrease in accrued interest payable on bonds	4,149
Deduct: increase in accrued interest payable on the School Bond Loan Fund	(45,563)

Change in net assets of governmental activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; width: 100%;">\$ (46,935)</div>
---	--

The accompanying notes are an integral part of these financial statements.

VESTABURG COMMUNITY SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund
Budget and Actual
For the Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Revenue				
Local sources:				
Property tax levy	\$ 266,594	\$ 266,595	\$ 270,725	\$ 4,130
Transfers from other districts:	77,687	81,422	81,438	16
Other	34,583	34,200	31,682	(2,518)
Total revenue from local sources	<u>378,864</u>	<u>382,217</u>	<u>383,845</u>	<u>1,628</u>
State sources	<u>5,675,194</u>	<u>5,399,120</u>	<u>5,384,601</u>	<u>(14,519)</u>
Federal sources	<u>239,631</u>	<u>240,610</u>	<u>224,634</u>	<u>(15,976)</u>
Total revenue	<u>6,293,689</u>	<u>6,021,947</u>	<u>5,993,080</u>	<u>(28,867)</u>
Expenditures				
Instruction:				
Basic programs:				
Elementary school	1,409,909	1,416,649	1,372,709	(43,940)
Middle school	540,454	642,784	678,517	35,733
Secondary school	628,187	931,964	971,239	39,275
Total basic programs	<u>2,578,550</u>	<u>2,991,397</u>	<u>3,022,465</u>	<u>31,068</u>
Added needs:				
Preschool	64,453	47,922	40,200	(7,722)
Compensatory education	222,545	171,690	157,158	(14,532)
Special Education	681,982	488,153	462,291	(25,862)
Total added needs	<u>968,980</u>	<u>707,765</u>	<u>659,649</u>	<u>(48,116)</u>
Total instruction	<u>3,547,530</u>	<u>3,699,162</u>	<u>3,682,114</u>	<u>(17,048)</u>
Supporting services:				
Pupil services:				
Guidance	244,500	177,667	170,584	(7,083)
Other pupil services	47,440	36,700	36,637	(63)
Total pupil services	<u>291,940</u>	<u>214,367</u>	<u>207,221</u>	<u>(7,146)</u>
Instructional Staff:				
Gifted and talented instruction	2,100	2,350	1,644	(706)
Improvement of instruction	69,562	50,014	104,090	54,076
Library	145,450	117,456	117,972	516
Computer assistance	155,203	108,903	107,697	(1,206)
Total instructional staff	<u>372,315</u>	<u>278,723</u>	<u>331,403</u>	<u>52,680</u>

continued...

VESTABURG COMMUNITY SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund
Budget and Actual
For the Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Expenditures				
Supporting services:				
General administration:				
Board of education	87,100	54,650	71,984	17,334
Executive administration	192,840	174,625	177,420	2,795
Total general administration	<u>279,940</u>	<u>229,275</u>	<u>249,404</u>	<u>20,129</u>
 School administration	 <u>455,310</u>	 <u>447,791</u>	 <u>445,722</u>	 <u>(2,069)</u>
 Business services:				
Fiscal services	31,200	67,120	67,577	457
Operation and maintenance of plant	643,612	612,327	560,604	(51,723)
Pupil transportation services	311,916	304,760	279,324	(25,436)
Other business services	87,500	90,800	89,212	(1,588)
Total business services	<u>1,074,228</u>	<u>1,075,007</u>	<u>996,717</u>	<u>(78,290)</u>
 Total supporting services	 <u>2,473,733</u>	 <u>2,245,163</u>	 <u>2,230,467</u>	 <u>(14,696)</u>
 Capital outlay	 <u>123,890</u>	 <u>27,800</u>	 <u>87,861</u>	 <u>60,061</u>
 Payments to other governmental units	 <u>20,000</u>	 <u>45,000</u>	 <u>53,222</u>	 <u>8,222</u>
 Total expenditures	 <u>6,165,153</u>	 <u>6,017,125</u>	 <u>6,053,664</u>	 <u>36,539</u>
 Revenue over (under) expenditures	 128,536	 4,822	 (60,584)	 (65,406)
 Transfers out	 <u>74,300</u>	 <u>(87,015)</u>	 <u>(71,638)</u>	 <u>15,377</u>
 Net change in fund balance	 202,836	 (82,193)	 (132,222)	 (50,029)
 Fund balance, beginning of year	 <u>1,757,551</u>	 <u>1,757,551</u>	 <u>1,763,722</u>	 <u>6,171</u>
 Fund balance, end of year	 <u><u>\$ 1,960,387</u></u>	 <u><u>\$ 1,675,358</u></u>	 <u><u>\$ 1,631,500</u></u>	 <u><u>\$ (43,858)</u></u>

The accompanying notes are an integral part of these financial statements.

VESTABURG COMMUNITY SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balance
Food Service Special Revenue Fund
Budget and Actual
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenue				
Local sources				
Food sales	\$ 117,800	\$ 117,800	\$ 132,096	\$ 14,296
Interest	380	380	362	(18)
Total revenue from local sources	<u>118,180</u>	<u>118,180</u>	<u>132,458</u>	<u>14,278</u>
State sources - restricted	<u>13,000</u>	<u>13,000</u>	<u>10,817</u>	<u>(2,183)</u>
Federal sources	<u>177,500</u>	<u>177,500</u>	<u>170,806</u>	<u>(6,694)</u>
Total revenue	<u>308,680</u>	<u>308,680</u>	<u>314,081</u>	<u>5,401</u>
Expenditures				
Salaries	80,000	80,000	107,691	27,691
Employee benefits	51,000	51,000	49,135	(1,865)
Purchased services	16,000	16,000	6,599	(9,401)
Supplies and materials	101,000	101,000	135,751	34,751
Capital outlay	7,000	7,000	17,738	10,738
Other expenses	<u>1,500</u>	<u>1,500</u>	<u>809</u>	<u>(691)</u>
Total expenditures	<u>256,500</u>	<u>256,500</u>	<u>317,723</u>	<u>61,223</u>
Net change in fund balance	52,180	52,180	(3,642)	(55,822)
Fund balance, beginning of year	<u>15,907</u>	<u>15,907</u>	<u>128,777</u>	<u>(112,870)</u>
Fund balance, end of year	<u>\$ 68,087</u>	<u>\$ 68,087</u>	<u>\$ 125,135</u>	<u>\$ 57,048</u>

The accompanying notes are an integral part of these financial statements.

VESTABURG COMMUNITY SCHOOLS
Statement of Fiduciary Assets and Liabilities
June 30, 2006

	Agency Fund
Assets	
Cash and cash equivalents	\$ 75,230
Accounts receivable	24,314
	<u>\$ 99,544</u>
Liabilities	
Due to student groups	<u>\$ 99,544</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Vestaburg Community School District (the “District”) has followed the guidelines of the Governmental Accounting Standards Board and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include entities for which the District is considered to be financially accountable.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended 2006.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus.

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *food service fund* is used to account for the revenue sources for the District's hot lunch and breakfast programs.

Additionally, the District reports the following fund types:

The *special revenue funds* are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes, where there is a need to determine the results of operations, specifically athletic activities.

The *debt service funds* are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

The *agency funds* account for assets held for other groups and organizations and is custodial in nature.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

D. Assets, liabilities and equity

1. Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

3. Inventory

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

4. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30-50
Vehicles	8-15
Equipment and other	5-20

5. *Compensated absences*

District employees are not allowed to accumulate or carryover leave time and require no liability in the government-wide financial statements.

6. *Long-term obligations*

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

expenditures.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

The General and Food Service Special Revenue funds are under formal budgetary control. The District does not formally adopt budgets for the Athletics Special Revenue Fund or the Debt Service Funds. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The amended budgets for the General and Special Revenue Funds are adopted on the objective level, whereas the original budgets are adopted on an activity level.

All annual appropriations lapse at fiscal year end.

B. Excess of expenditures over appropriations for budgetary funds

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures that are in excess of the amount appropriated. During the year ended June 30, 2006, the District incurred expenditures in the General Fund, which were in excess of the amounts appropriated in various activities as follows:

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
GENERAL FUND			
Basic programs	\$ 2,991,397	\$ 3,022,465	\$ (31,068)
Instructional staff	278,723	331,403	(52,680)
General administration	229,275	249,404	(20,129)
Capital outlay	27,800	87,861	(60,061)
Payments to other governmental units	45,000	53,222	(8,222)
FOOD SERVICE FUND			
Salaries	80,000	107,691	(27,691)
Supplies and materials	101,000	135,751	(34,751)
Capital outlay	7,000	17,738	(10,738)

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

Statement of Net Assets

Government-wide Financial Statement Captions:

Cash and cash equivalents	\$ 1,368,251
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Statement of Fiduciary Net Assets

Cash and cash equivalents	<u>75,230</u>
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Total	<u>\$ 1,443,481</u>
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Notes to Financial Statements:

Deposits	<u>\$ 1,443,481</u>
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VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Investment and deposit risk

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The District has no investments for which ratings are required.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$1,210,223 of the District's bank balance of \$1,410,223 was exposed to credit risk because it was uninsured and uncollateralized.

Michigan law authorizes the District to deposit and invest in:

- a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposits issued by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States, United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

B. Receivables

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Total</u>	<u>Amount Not Expected to be Collected Within One Year</u>
Receivables:				
Intergovernmental	\$1,074,653	\$ -	\$1,074,653	\$ -
Durant settlement	<u>14,238</u>	<u>42,034</u>	<u>56,272</u>	<u>45,544</u>
Total receivables	<u>\$1,088,891</u>	<u>\$ 42,034</u>	<u>\$1,130,925</u>	<u>\$ 45,544</u>

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

C. Capital assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 75,000	\$ -	\$ -	\$ 75,000
Capital assets being depreciated:				
Buildings	2,431,581	-	-	2,431,581
Vehicles	911,190	-	-	911,190
Equipment and other	<u>2,308,780</u>	<u>92,836</u>	<u>(56,080)</u>	<u>2,345,536</u>
Total capital assets being depreciated	<u>5,651,551</u>	<u>92,836</u>	<u>(56,080)</u>	<u>5,688,307</u>
Less accumulated depreciation				
Buildings	(1,997,303)	(56,589)	-	(2,053,892)
Vehicles	(557,454)	(61,303)	-	(618,757)
Equipment and other	<u>(1,834,628)</u>	<u>(112,596)</u>	<u>53,655</u>	<u>(1,893,569)</u>
Total accumulated depreciation	<u>(4,389,385)</u>	<u>(230,488)</u>	<u>53,655</u>	<u>(4,566,218)</u>
Total capital assets being depreciated, net	<u>1,262,166</u>	<u>(137,652)</u>	<u>(2,425)</u>	<u>1,122,089</u>
Governmental activities capital assets, net	<u>\$ 1,337,166</u>	<u>\$(137,652)</u>	<u>\$ (2,425)</u>	<u>\$ 1,197,089</u>

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Depreciation expense was charged to functions / programs of the primary government as follows:

Governmental activities:

Supporting services - Transportation	\$ 61,303
Depreciation - unallocated	<u>169,185</u>
Total depreciation expense – governmental activities	<u>\$ 230,488</u>

D. Payables

Accounts payable and accrued liabilities as of June 30, 2006 for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General</u>	<u>Food</u> <u>Service</u>	<u>Nonmajor</u> <u>Funds</u>	<u>Total</u>
Fund Financial Statements:				
Accounts payable	\$ 27,026	\$ -	\$ 24,314	\$ 51,340
Salaries payable	375,328	10,592	-	385,920
Accrued expenses	90,042	2,541	-	92,583
Deposits	<u>-</u>	<u>1,412</u>	<u>-</u>	<u>1,412</u>
	<u>\$ 492,396</u>	<u>\$ 14,545</u>	<u>\$ 24,314</u>	\$531,255

District-wide Financial Statements:

Accrued interest on long-term debt	<u>12,603</u>
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Total accounts payable and accrued liabilities	<u>\$ 543,858</u>
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VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

E. Interfund receivables, payables and transfers

At June 30, 2006, interfund receivables and payables in the fund financial statements consisted of the following:

Interfund receivables

Due To	Due From			<u>Total</u>
	<u>General</u>	<u>Food Service</u>	<u>Nonmajor Governmental</u>	
General	\$ -	\$ 137,599	\$ -	\$ 137,599
Food Service	39,950	-	-	39,950
Nonmajor governmental funds	<u>74,413</u>	<u>-</u>	<u>11,542</u>	<u>85,955</u>
Total	<u>\$ 114,363</u>	<u>\$ 137,599</u>	<u>\$ 11,542</u>	<u>\$ 263,504</u>

The District often reports interfund balances between many of its funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

For the year then ended, interfund transfers consisted of the following:

Transfer from General Fund to:

Non-major funds:
Athletic

\$ 71,638

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2006, the District transferred funds to subsidize the athletics program.

F. Long-term debt

The following is a summary of bond and loan transactions of the District for the year ended June 30, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
General obligation					
bonds	\$ 4,415,479	\$ -	\$(243,446)	\$ 4,172,033	\$ 263,609
State school bond loans	<u>1,116,088</u>	<u>45,563</u>	<u>-</u>	<u>1,161,651</u>	<u>-</u>
	<u>\$ 5,531,567</u>	<u>\$ 45,563</u>	<u>\$(243,446)</u>	<u>\$ 5,333,684</u>	<u>\$ 263,609</u>

Bonds payable at June 30, 2006, are comprised of the following individual issues:

1996 bonds due in annual installments ranging from \$175,000 to \$200,000 through May 1, 2026; interest ranging from 3.60% to 5.71%. \$ 235,000

2005 refunding bonds due in annual installments ranging from \$25,000 to \$205,000 through May 1, 2026; interest ranging from 2.5% to 4.25% 3,895,000

1998 Durant bonds are due in annual installments ranging from \$3,139 to \$7,296 through May 15, 2016; interest rate of 4.76%; annual payments are funded through State revenue sources. 42,033

\$ 4,172,033

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service.

The District has entered into loan agreements with the State of Michigan for State School Bond Loans which were deposited into the 1996 Debt Retirement Fund. The District has agreed to repay the loans with interest, at rates and at the times determined by the State Treasurer. The addition to the balance of the State school bond loan in the current year is accrued interest bringing the total balance of the interest on the loan at June 30, 2006 to \$256,522.

Annual debt service requirements to maturity for general obligation bonds (excluding the operating loan from the State School Bond Loan Program) are as follows:

Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 263,609	\$ 162,402	\$ 426,011
2008	203,782	148,876	352,658
2009	203,962	142,696	346,658
2010	217,007	142,242	359,249
2011	204,348	129,810	334,158
2012-2016	1,029,325	538,878	1,568,204
2017-2021	1,025,000	340,044	1,365,044
2022-2026	<u>1,025,000</u>	<u>130,226</u>	<u>1,155,226</u>
Totals	<u>\$ 4,172,033</u>	<u>\$ 1,735,174</u>	<u>\$ 5,907,208</u>

Advance refunding

On January 31, 2005, the District issued general obligation bonds of \$3,920,000. Proceeds from this bond issue were used to advance refund a portion of the 1996 general obligation bonds issued for school improvements. The refunded bonds mature as scheduled on May 1, 2006 through 2026. The balance of the defeased debt outstanding at June 30, 2006 is \$3,700,000.

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

G. Commitments and Contingencies

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, management does not believe such disallowances, if any, will be material to the financial position of the District.

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2006.

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

B. Property taxes

Property taxes are assessed as of December 31 each year and attach as an enforceable lien on property as of the following July 1. School property taxes are levied on December 1 each year, based on the previous years assessment, by Township governments whose boundaries include property within the District, and are due by February 28. Delinquent real taxes are advanced to the District by the Counties involved. Taxes are recorded as revenue in the year levied. Taxes receivable are recorded for property taxes collected within 60 days of year end, if any.

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

C. Defined Benefit Pension Plan

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling (517) 322-5103.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 16.34% of annual covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPERS for the years ended June 30, 2006, 2005, and 2004, were \$428,775, \$445,605, and \$471,745 respectively, equal to the required contributions for each year.

Other Post Employment Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

D. Economic Dependency

The District received approximately 89% of its General Fund revenue from the Michigan Department of Education Membership Allowance. Due to the significance of this revenue source to the District, the District is considered to be economically dependent.

* * * * *

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS**

VESTABURG COMMUNITY SCHOOLS
Details of Revenue, Expenditures and Changes in Fund Balance
General Fund
Budget and Actual
For the Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Revenue			
Local sources:			
Property tax levy	\$ 266,595	\$ 270,725	\$ 4,130
Interest	31,500	28,982	(2,518)
Transfers from other districts:			
Transportation	6,000	7,000	1,000
Social worker	3,804	-	(3,804)
Special education tax	23,630	23,630	-
Medicaid	36,688	39,508	2,820
Other	11,300	11,300	-
Grants received from ISD's			
Other	2,700	2,700	-
Total revenue from local sources	<u>382,217</u>	<u>383,845</u>	<u>1,628</u>
State sources:			
State school aid - unrestricted	5,392,001	5,377,482	(14,519)
Durant	7,119	7,119	-
Total revenue from state sources	<u>5,399,120</u>	<u>5,384,601</u>	<u>(14,519)</u>
Federal sources - restricted:			
E.C.I.A. Title I - Carryover	-	-	-
E.C.I.A. Title I	163,442	143,854	(19,588)
Title VI	-	3,040	3,040
Safe and drug free schools	-	4,483	4,483
SPSR	3,740	3,141	(599)
Homeland security	2,540	2,654	114
MIBLSI	5,000	6,388	1,388
Comprehensive school reform demonstration	1,856	1,701	(155)
Title IId	6,481	1,817	(4,664)
Eisenhower Formula Title II	57,551	57,556	5
Total revenue from federal sources	<u>240,610</u>	<u>224,634</u>	<u>(15,976)</u>
Total revenue	<u>6,021,947</u>	<u>5,993,080</u>	<u>(28,867)</u>

continued...

VESTABURG COMMUNITY SCHOOLS
Details of Revenue, Expenditures and Changes in Fund Balance
General Fund
Budget and Actual
For the Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Expenditures			
Instruction:			
Basic programs:			
Elementary school:			
Salaries	\$ 902,880	\$ 864,835	\$ (38,045)
Employee benefits	466,634	466,998	364
Purchased services	27,460	22,750	(4,710)
Supplies and materials	19,000	17,265	(1,735)
Other	675	861	186
Total elementary school	<u>1,416,649</u>	<u>1,372,709</u>	<u>(43,940)</u>
Middle school:			
Salaries	406,493	423,571	17,078
Employee benefits	192,521	215,064	22,543
Purchased services	22,200	20,269	(1,931)
Supplies and materials	20,070	17,965	(2,105)
Other	1,500	1,648	148
Total middle school	<u>642,784</u>	<u>678,517</u>	<u>35,733</u>
Secondary school:			
Salaries	537,814	578,016	40,202
Employee benefits	319,968	337,891	17,923
Purchased services	12,902	14,232	1,330
Supplies and materials	58,000	37,839	(20,161)
Other	3,280	3,261	(19)
Total secondary school	<u>931,964</u>	<u>971,239</u>	<u>39,275</u>
Total basic programs	<u>2,991,397</u>	<u>3,022,465</u>	<u>31,068</u>
Added needs:			
Special Education			
Salaries	320,310	302,025	(18,285)
Employee benefits	164,136	156,471	(7,665)
Purchased services	700	588	(112)
Supplies and materials	2,657	2,586	(71)
Other	350	621	271
Total special education	<u>488,153</u>	<u>462,291</u>	<u>(25,862)</u>

continued...

VESTABURG COMMUNITY SCHOOLS
Details of Revenue, Expenditures and Changes in Fund Balance
General Fund
Budget and Actual
For the Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Expenditures			
Instruction (continued):			
Added needs (continued):			
Preschool			
Salaries	\$ 28,137	\$ 21,723	\$ (6,414)
Employee benefits	8,690	7,685	(1,005)
Purchased services	2,450	2,584	134
Supplies and materials	7,500	7,063	(437)
Other	1,145	1,145	-
Total preschool	<u>47,922</u>	<u>40,200</u>	<u>(7,722)</u>
Compensatory Education			
Salaries	90,725	75,818	(14,907)
Employee benefits	66,965	67,892	927
Supplies and materials	14,000	13,448	(552)
Total compensatory education	<u>171,690</u>	<u>157,158</u>	<u>(14,532)</u>
Total added needs	<u>707,765</u>	<u>659,649</u>	<u>(48,116)</u>
Total instruction	<u>3,699,162</u>	<u>3,682,114</u>	<u>(17,048)</u>
Supporting services:			
Pupil Services:			
Guidance			
Salaries	128,463	122,895	(5,568)
Employee benefits	44,900	43,206	(1,694)
Purchased services	3,804	4,015	211
Supplies and materials	500	468	(32)
Total guidance	<u>177,667</u>	<u>170,584</u>	<u>(7,083)</u>

continued...

VESTABURG COMMUNITY SCHOOLS
Details of Revenue, Expenditures and Changes in Fund Balance
General Fund
Budget and Actual
For the Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Expenditures (continued)			
Supporting services:			
Pupil Services (continued):			
Other pupil services			
Salaries	\$ 29,000	\$ 28,439	\$ (561)
Employee benefits	7,050	7,582	532
Purchased services	300	269	(31)
Supplies and materials	350	347	(3)
Total other pupil services	<u>36,700</u>	<u>36,637</u>	<u>(63)</u>
 Total pupil services	 <u>214,367</u>	 <u>207,221</u>	 <u>(7,146)</u>
 Instructional Staff:			
Gifted and talented instruction:			
Purchased services	2,350	1,612	(738)
Supplies and materials	-	32	32
Total gifted and talented instruction	<u>2,350</u>	<u>1,644</u>	<u>(706)</u>
 Improvement of instruction:			
Salaries	5,000	4,890	(110)
Employee benefits	2,900	2,710	(190)
Purchased services	42,114	96,490	54,376
Total improvement of instruction	<u>50,014</u>	<u>104,090</u>	<u>54,076</u>
 Library:			
Salaries	73,400	73,261	(139)
Employee benefits	39,106	39,785	679
Supplies and materials	4,950	4,926	(24)
Total library	<u>117,456</u>	<u>117,972</u>	<u>516</u>

continued...

VESTABURG COMMUNITY SCHOOLS
Details of Revenue, Expenditures and Changes in Fund Balance
General Fund
Budget and Actual
For the Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Expenditures (continued)			
Supporting services: (continued)			
Instructional Staff (continued):			
Computer assistance:			
Salaries	\$ 51,203	\$ 51,203	\$ -
Employee benefits	27,700	28,799	1,099
Purchased services	10,000	9,563	(437)
Supplies and materials	20,000	18,132	(1,868)
Total computer assistance	<u>108,903</u>	<u>107,697</u>	<u>(1,206)</u>
 Total instructional staff	 <u>278,723</u>	 <u>331,403</u>	 <u>52,680</u>
 General administration:			
Board of education			
Salaries	1,200	695	(505)
Employee benefits	5,200	26,156	20,956
Purchased services	44,200	42,270	(1,930)
Supplies and materials	200	171	(29)
Other	3,850	2,692	(1,158)
Total board of education	<u>54,650</u>	<u>71,984</u>	<u>17,334</u>
 Executive administration			
Salaries	113,600	113,539	(61)
Employee benefits	58,085	60,177	2,092
Purchased services	1,200	985	(215)
Supplies and materials	100	81	(19)
Other	1,640	2,638	998
Total executive administration	<u>174,625</u>	<u>177,420</u>	<u>2,795</u>
 Total general administration	 <u>229,275</u>	 <u>249,404</u>	 <u>20,129</u>
 School administration:			
Salaries	309,779	305,165	(4,614)
Employee benefits	135,162	137,979	2,817
Purchased services	350	315	(35)
Other	2,500	2,263	(237)
Total school administration	<u>447,791</u>	<u>445,722</u>	<u>(2,069)</u>

continued...

VESTABURG COMMUNITY SCHOOLS
Details of Revenue, Expenditures and Changes in Fund Balance
General Fund
Budget and Actual
For the Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Expenditures (continued)			
Supporting services: (continued)			
Business services:			
Fiscal services			
Salaries	\$ 37,200	\$ 37,183	\$ (17)
Employee benefits	22,550	23,575	1,025
Purchased services	850	831	(19)
Supplies and materials	3,800	3,290	(510)
Other	2,720	2,698	(22)
Total fiscal services	<u>67,120</u>	<u>67,577</u>	<u>457</u>
Operation and maintenance of plant			
Salaries	211,455	183,239	(28,216)
Employee benefits	117,172	115,480	(1,692)
Purchased services	198,200	190,122	(8,078)
Supplies and materials	85,500	71,649	(13,851)
Other	-	114	114
Total operation and maintenance of plant	<u>612,327</u>	<u>560,604</u>	<u>(51,723)</u>
Pupil transportation services			
Salaries	164,000	156,848	(7,152)
Employee benefits	58,500	56,645	(1,855)
Purchased services	15,900	6,066	(9,834)
Supplies and materials	66,250	59,655	(6,595)
Other	110	110	-
Total pupil transportation services	<u>304,760</u>	<u>279,324</u>	<u>(25,436)</u>
Other business services			
Employee benefits	45,300	44,256	(1,044)
Purchased services	45,500	44,956	(544)
Total other business services	<u>90,800</u>	<u>89,212</u>	<u>(1,588)</u>
Total supporting services	<u>2,245,163</u>	<u>2,230,467</u>	<u>(14,696)</u>

continued...

VESTABURG COMMUNITY SCHOOLS
Details of Revenue, Expenditures and Changes in Fund Balance
General Fund
Budget and Actual
For the Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Expenditures (continued)			
Supporting services: (continued)			
Capital outlay:			
Instruction:			
Basic programs:			
Elementary school	\$ -	\$ 2,670	\$ 2,670
Middle school	3,000	2,820	(180)
Secondary school	5,350	5,340	(10)
Added needs:			
Special education	350	400	50
Supporting services:			
Instructional staff			
Computer assistance	13,000	69,074	56,074
Library	3,100	4,784	1,684
Operation and maintenance of plant	3,000	2,773	(227)
Total capital outlay	27,800	87,861	60,061
Payments to other governmental units	45,000	53,222	8,222
Total expenditures	6,017,125	6,053,664	36,539
Revenue over (under) expenditures	4,822	(60,584)	(65,406)

continued...

VESTABURG COMMUNITY SCHOOLS
Details of Revenue, Expenditures and Changes in Fund Balance
General Fund
Budget and Actual
For the Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Other financing sources (uses)			
Transfers out	\$ (87,015)	\$ (71,638)	\$ 15,377
Net change in fund balance	(82,193)	(132,222)	(50,029)
Fund balance, beginning of year,	<u>1,757,551</u>	<u>1,763,722</u>	<u>6,171</u>
Fund balance, end of year	<u><u>\$ 1,675,358</u></u>	<u><u>\$ 1,631,500</u></u>	<u><u>\$ (43,858)</u></u>

VESTABURG COMMUNITY SCHOOLS
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

	<u>Special Revenue</u>	<u>Debt Service</u>			
		1996	2005	Durant	
	<u>Athletics</u>	<u>Debt Service</u>	<u>Debt Service</u>	<u>Debt Service</u>	<u>Totals</u>
<u>ASSETS</u>					
Assets					
Cash and cash equivalents	\$ (368)	\$ 100,705	\$ -	\$ -	\$ 100,337
Due from other governmental units	-	-	-	42,034	42,034
Due from other funds	24,682	39,605	21,668	-	85,955
	<u>24,682</u>	<u>39,605</u>	<u>21,668</u>	<u>-</u>	<u>85,955</u>
<u>TOTAL ASSETS</u>	<u>\$ 24,314</u>	<u>\$ 140,310</u>	<u>\$ 21,668</u>	<u>\$ 42,034</u>	<u>\$ 228,326</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Accounts payable	\$ 24,314	\$ -	\$ -	\$ -	\$ 24,314
Deferred revenue	-	-	-	42,034	42,034
Due to other funds	-	-	11,542	-	11,542
	<u>-</u>	<u>-</u>	<u>11,542</u>	<u>-</u>	<u>11,542</u>
Total liabilities	24,314	-	11,542	42,034	77,890
Fund balances					
Unreserved, undesignated	-	140,310	10,126	-	150,436
	<u>-</u>	<u>140,310</u>	<u>10,126</u>	<u>-</u>	<u>150,436</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 24,314</u>	<u>\$ 140,310</u>	<u>\$ 21,668</u>	<u>\$ 42,034</u>	<u>\$ 228,326</u>

VESTABURG COMMUNITY SCHOOLS
Combining Statement of Revenue, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

	<u>Special Revenue</u>	<u>Debt Service</u>			
		<u>1996 Debt Service</u>	<u>2005 Debt Service</u>	<u>Durant Debt Service</u>	
	<u>Athletics</u>		<u>Service</u>	<u>Service</u>	<u>Totals</u>
Revenue					
Local sources	\$ 62,027	\$ 265,224	\$ 210,347	\$ -	\$ 537,598
State sources	-	-	-	4,999	4,999
Total revenue	<u>62,027</u>	<u>265,224</u>	<u>210,347</u>	<u>4,999</u>	<u>542,597</u>
Expenditures					
Athletics	133,665	-	-	-	133,665
Debt service:					
Principal	-	215,000	25,000	3,446	243,446
Interest and fiscal charges	-	29,930	175,221	1,553	206,704
Total expenditures	<u>133,665</u>	<u>244,930</u>	<u>200,221</u>	<u>4,999</u>	<u>583,815</u>
Revenue over (under) expenditures	<u>(71,638)</u>	<u>20,294</u>	<u>10,126</u>	<u>-</u>	<u>(41,218)</u>
Other financing sources					
Transfers in	71,638	-	-	-	71,638
Total other financing sources	<u>71,638</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>71,638</u>
Net change in fund balance	-	20,294	10,126	-	30,420
Fund balance, beginning of year	-	120,016	-	-	120,016
Fund balance, end of year	<u>\$ -</u>	<u>\$ 140,310</u>	<u>\$ 10,126</u>	<u>\$ -</u>	<u>\$ 150,436</u>

INTERNAL CONTROL AND COMPLIANCE



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

August 3, 2006

To the Board of Education
Vestaburg Community Schools
Vestaburg, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Vestaburg Community Schools* (the "District"), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the financial statements being audited may occur and not be detected on a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the District, and the Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

An Independent Member of Baker Tilly International

August 3, 2006

To the Board of Education
Vestaburg Community School District
Vestaburg, Michigan

In planning and performing our audit of the financial statements of the ***Vestaburg Community School District*** for the year ended June 30, 2006, we considered the District's internal controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal controls.

However, during our audit we became aware a matter that is an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comment and suggestions regarding this matter. This letter does not affect our report dated August 3, 2006, on the financial statements of the ***Vestaburg Community School District***.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestions with various District personnel, and we will be pleased to discuss this comment in further detail at your convenience, or perform any additional studies of these matters, or to assist you in implementing the recommendations.

VESTABURG COMMUNITY SCHOOLS

COMMENTS AND RECOMMENDATIONS

1) **Reconciliation of General Ledger Account Balances**

A strong system of internal control dictates that all general ledger account balances are properly reconciled to and supported by a subsidiary ledger or other adequate supportive documentation in a timely manner. Several of the District's general ledger account balances were not properly reconciled to subsidiary ledgers or other supportive documentation at the end of the year. The general ledger account balances that were not reconciled include, but are not limited to, operating cash in the General Fund and cash in the Agency fund that is held for student groups. Cash in the Agency fund that is held for student groups is held collectively with cash of the Athletic fund in a single bank account, which is contributing to the difficulty in the reconciliation of the accounts.

Because some of the account balances were not properly reconciled, several year-end adjusting journal entries had to be posted to properly account for the balances. This situation increases the risk that District assets could be misappropriated and not be detected by management in a timely manner.

Recommendation:

We recommend that the District implement whatever changes are necessary to ensure that all general ledger account balances are properly reconciled to their respective subsidiary ledger, or other adequate supportive documentation, in a timely manner, and that the reconciliations are approved by a responsible official of the District. We also recommend the establishment of a separate bank account for the Athletic fund activity.